



Foreign Agricultural Service

**GAIN Report**

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 6/20/2000

GAIN Report #AS0021

## **Australia**

### **Food Processing Ingredients Sector**

### **Food Processing Sector**

## **2000**

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#### **Report Highlights:**

**There is substantial potential for growth in the US\$31.6 billion Australian food and beverage processing industry. New to market US producers face competition from Australian, Malaysian, and New Zealand food ingredient producers as well as US producers already established in the market. Approximately 90% of domestic consumption of raw materials and processed foods is produced by Australia. Opportunities lie in new flavors, baking inclusions, and functional food ingredients. The depreciation of the Australian dollar makes US products significantly more expensive.**

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Includes PSD changes: No  
Includes Trade Matrix: No  
Unscheduled Report  
Canberra [AS1], AS



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## **Disclaimer**

As a number of different sources were used to collate market information for this report, there are areas in which figures are slightly different. The magnitude of the differences is, in most cases, small and the provision of the data, even though slightly different, is to provide the U.S. exporter with the best possible picture of the Australian Food Processing Sector where omission may have provided less than that.

This report was drafted by consultants:

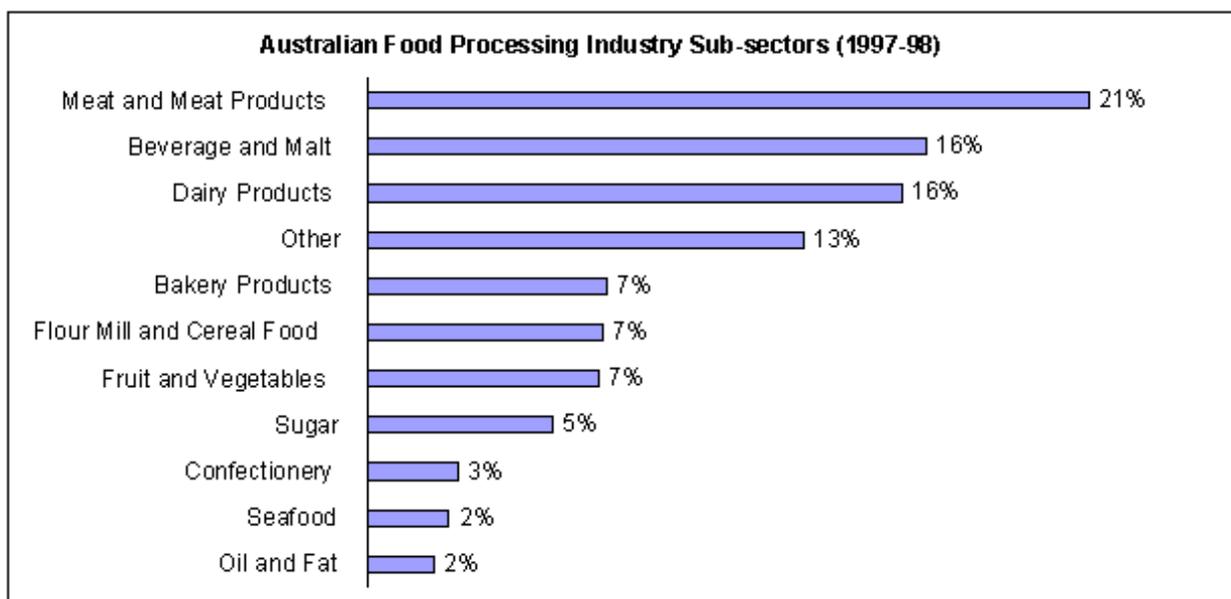
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## Section I: Market Summary

The food processing industry is the largest manufacturing sector in Australia. In 1997/98 there were approximately 4000 food processing establishments with a total turnover of US\$31.6 billion. The industry is dominated by a small number of large firms and foreign ownership exceeds 50% of industry manufacturing capability with the strategy of some of the foreign-owned companies to manufacture as close as possible to, or inside, the markets they supply. Of the larger Australian owned firms many are controlled by primary producer cooperatives, particularly dairy farmer cooperatives.

The industry is seen to have considerable potential for increased growth with sales of processed foods continuing to increase in Australia. The food processing industry grew by 36% between 1991/92 and 1997/98, which was greater than the growth for the manufacturing sector as a whole (27%). Importation of processed food and beverages has also increased steadily over recent years with Australia importing approximately A\$3.7b (US\$2.5b) of processed food and beverages in 1997/98 and A\$4.1b (US\$2.56b) in 1998/99 (ABS Statistics), a growth of 11%. Manufactured food imports increased by 56% between 1989/90 and 1995/96, significantly faster than total industry turnover, with the result that import penetration (imports/local sales) increased from 6.4% to 7% (Schroder, *Australian Food*, Agrifood Media, 1999).

Australia's food processing industry is divided into a number of different sub-sectors as categorized by the ABS with meat and meat products, beverage and malt, dairy products, bakery products, flour mill and cereal food, fruit and vegetables, sugar, confectionery, seafood, oil and fat, and other. The meat and meat products sub-sector is the largest accounting for 21% value share.



The largest contributors to total processed food and beverage imports in 1998/99 were fruit and vegetables (20.3%), seafood (17.4%), food nec (tea, mate, spices, coffee and other misc foods) (10.6%), spirits (10%) and processed oil and fat (6.8%). Local multinationals and overseas companies mostly supply food ingredients such as colors, flavors and stabilizers. The US for example supplies stabilizers.

Although there has been growth in imports of processed food products in the categories fruit and vegetables, beverage and malt, dairy and bakery, a large reduction in imported meat and meat products, oil and fat, confectionery and sugar occurred in 1998/99.

***% Change in Australian Imports of Processed Food Products by Major Product Category***

<b>Product Category</b>	<b>% Change for 1998/99 over 1997/98 (AUD Value)</b>	<b>% Change for 1998/99 over 1997/98 (USD Value)*</b>
Meat and Meat Products	-17%	-23%
Dairy Products	17%	8%
Fruit and Vegetables	30%	20%
Oil and Fat	-15%	-21%
Flour Mill and Cereal Food	14%	5%
Bakery Products	15%	6%
Seafood	13%	5%
Confectionery	-41%	-46%
Sugar	-69%	-71%
Other	20%	10%
Beverage and Malt	18%	9%
<b>Total All Processed Foods</b>	<b>10%</b>	<b>1%</b>

\* AUD were converted to USD for 1997/98 and 1998/99 and then the % change calculated.

***Food Inputs to the Food and Beverages Processing Sector***

The Australian Bureau of Statistics estimates that the value of domestically produced food inputs used by the food processing sector was A\$5.3 billion (US\$3.9 billion) in 1994/95 (latest available based on Input-Output tables for 1994/95). The value of imported inputs used by the sector was A\$400 million (US\$296 million) (7% of the total value) in the same year. In 1998/99 imports of food and beverage inputs to industry was A\$731 million (US\$456 million) showing a nominal growth of 83% over the four years. [Note: The statistics for domestic inputs will be updated at the end of 2000]. In 1998/99 58% of the imports of food inputs were processed products and originated mainly from Malaysia, the US and Singapore. The remainder of imported food inputs (42%) were primary products and originated mainly from New Zealand, PNG and the US.

### ***Key Market Drivers***

The key market drivers for food processing and consumption trends influencing the type and quality of inputs being used in processed foods include the following factors:

- Depreciation of the Australian dollar and rising interest rates;
- Rising consumer health consciousness;
- Increasing consumption of fresh foods;
- Rising popularity of 'functional foods';
- Slow population growth and price sensitivity limiting sector growth;
- Food choices influenced by an increasingly multicultural population;
- Australian consumers like to experiment with flavors;
- Increasing competition from developing countries; and
- Increasing nutritional awareness by adult males.

### ***Food Standards and Import Regulations***

Food ingredients are often freely imported to Australia. However, food ingredients face regulations including those outlined in the *Australia Food Standards Code*. There are general labeling requirements outlined in Standard A1 of the *Australian Food Standards Code (FSC)* and also date marking requirements for packaged food as outlined in Standard A2 of the *Code*. As Australia is a signatory to the World Trade Organization's Sanitary and Phytosanitary agreement there are obligations in terms of how it considers applications to export food to Australia. Note also that there are conditions for entry to Australia for any food and these are subject to change at short notice. It is essential therefore to check with the following agencies in relation to up to date conditions and import requirements:

- AQIS (Australian Quarantine Information Service) develops quarantine conditions applicable to any food import from any country; and
- Australia New Zealand Food Authority (ANZFA) facilitates the policy framework for the development of food safety conditions that are managed by AQIS under its imported food inspection program and is responsible for the development and maintenance of the Australian Food Standards Code. There is close liaison between AQIS and ANZFA.

### ***Advantages and Challenges Facing US Products in Australia***

<b>Advantages</b>	<b>Challenges</b>
Australia lacks the natural ingredients or specific varieties that are necessary for the production of some foods – for example dried onions, chives and lines of stabilizers are imported from the US.	Australians are increasing their consumption of fresh produce. BIS Shrapnel confirmed this trend in their 1999 survey of food service operators where 51% of respondents agreed that fresh produce popularity was reducing demand for processed products.
Australian consumers like to experiment with new foods and flavors creating opportunities for foods, which add to an already diverse	The US faces competition from Malaysia, New Zealand, Singapore, and Australian food ingredient producers as well as US producers already

cuisine.	established in the market.
Australia does not produce sufficient quantities of some food for example aquatic products; peanuts, pineapples, champignons; tea, coffee and cocoa; coconut; and spices.	The depreciation of the Australian dollar as compared to US dollar makes US products more expensive.
The US has a comparative advantage in the production of raw materials except in the dairy industry, some grains and meat.	Slow population growth and the price sensitivity of the Australian consumer are limiting factors on the growth of the Sector.

Note: US suppliers should be aware that as of July 1, 2000 a Goods & Services Tax (GST) will apply in Australia.

## Section II: Road Map for Market Entry

### A. Entry Strategy

There is no one best way to enter the Australian market and be successful. However, success is unlikely without local representation and personal visits, particularly in the food additive sector of the market. What form this local representation takes depends on the exporter, the products and the Australian representative. The local representative should be able to provide market knowledge, up-to-date information and guidance on business practices, trade-related laws, food standards, sales contacts with existing and potential buyers, and market development expertise. The US supplier needs to provide samples, product specifications and nutritional data for all products and provide representatives with the necessary training. Using your marketing material and product information the representative will then canvases the customer base to determine the level of interest. Processors will then test sample products.

Industry advice suggests that the majority of food ingredient imports move through import agents where Australian processors, requiring a particular product from a US supplier for example, must purchase through the chosen agent. The majority of the top 20 food processors in Australia use import agents to source product as well as buying direct from other processors or producers. Brokers and distributors/wholesalers also form an important part in the food ingredients markets. The majority of local products are obtained direct from producers or through wholesalers and distributors.

Where businesses have found success in the food ingredients market the following elements are present:

- **Close collaboration with processors and early involvement:** provide technical assistance, complimentary product range, and collaboration with flavor chemists and sensory analysts. For example Cottee Dairy Products, in the dairy and casein industries, took a proactive role in the joint research and development of custom formulations and ingredients specifically designed to meet the stringent quality control requirements of the Australasian and international food trade. Program of mutual product/ingredient development works well in Australia and Internationally.

- **Advertising:** Advertising can be undertaken by Australian representative such as through the industry magazine, *Food Processor*, which publishes advertisements in the form of informative articles. For example Kingfood Australia, a distributor of food inputs, introduced a new ingredient called Creamaroma produced by Dairy Chem in the US and advertised in article format in the magazine, noting the product qualities.

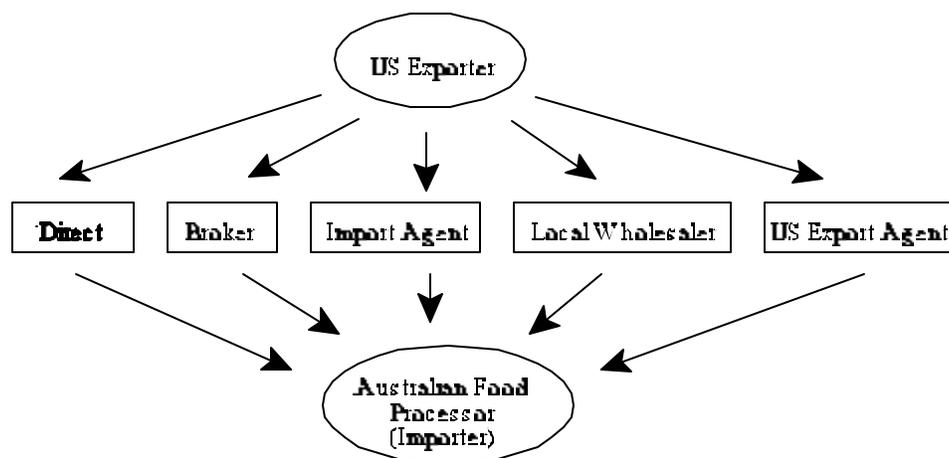
The local importer, representative, trading agent, joint venture partner, or distributor should be well known to the American company before any permanent, legal arrangement is finalized.

## B. Market Structure

Imported food ingredients, for the most part, move from the US exporter to the Australian processor through an import agent or by Australian companies going direct to the US exporter. The chart shows the flow of product through the distribution chain. From the Australian food processor product is supplied to other processors, both the retail and food service industries, and for export.

The majority of Australian processors procure their food inputs through agents, local wholesalers, and distributors while some of the larger companies have established direct relationships with larger US suppliers.

The industry is dominated by large firms and at least 50% of food manufacturing capacity is foreign owned. In 1997/98 Australia's 20 largest food manufacturing companies accounted for nearly half the total industry turnover (AFGC, Australian Food, Agrifood Media, 1999). Of the top 20 firms only seven are wholly Australian-owned, nine are wholly foreign-owned or controlled and four are a mixture of local and foreign equity. Three of the seven Australian-owned firms in the top 20 are farmer-owned co-operatives (Instate 2000).



The Australian owned company Manildra Group provides an example of the difference in the distribution of domestic inputs as opposed to imported inputs and is typical of the operations of farmer cooperatives which buy their products direct from farm gate under long term contracts. Manildra is the largest user of wheat for industrial purposes in Australia, refines the majority of the NSW sugar crop and is a leading supplier of raw ingredients to the food, beverage, and confectionery industries. Manildra has operations in Australia and the United States, producing carbohydrates (starch) and protein (gluten), glucose, and fructose for industrial users. The company is the only true producer of sweeteners in Australia as the largest manufacturer of glucose syrup and the only producer of fructose.

### C. Company Profiles

There are currently 4000 Australian companies that make up the Australian food processing sector and cover a range of different sub-sectors. The following table provides a summary of the food processing sector as a whole by sub-sector. In terms of Australian dollars the percentage increase in sales over the previous year is 7% (nominal).

#### *Overview of Australia's Food Processing Sector*

<b>Food Processing Industry Sub-Sector</b>	<b>Number of Firms</b>	<b>Sales in USD (\$ million 1997-98)</b>	<b>Sales in AUD (\$ million 1997-98)</b>	<b>Estimated Growth (AUD) (% increase/previous yr)</b>
Meat and Meat Products	646	6,734	9,939	10
Dairy Products	280	4,988	7,362	5
Fruit and Vegetables	249	2,169	3,202	-3
Oil and Fat	65	619	914	34
Flour Mill and Cereal Food	193	2,197	3,242	-1
Bakery Products	615	2,245	3,314	7
Seafood	200	766	1,130	9
Confectionery	214	858	1,266	-4
Sugar	22	1,728	2,551	2
Other	963	4,082	6,026	9
Beverage and Malt	492	5,213	7,694	11
<b>TOTAL</b>	<b>3,939</b>	<b>31,599</b>	<b>46,640</b>	<b>7</b>

There is significant concentration of processing company's in particular product categories where it is common for the two largest suppliers to share over 50% of the market. For example the Australian confectionery market is dominated by three major foreign-owned companies, which have a combined market share of 75%. They include Cadbury Schweppes Australia Limited (35%), followed by Nestle (25%) and Mars Confectionery of Australia including its subsidiary Kenman Kandy (15%). The following table shows the concentration as in 1998 of a number of additional categories with the country of origin in brackets:

***Concentration in Australian Food Marketing, 1998***

<b>Product Category</b>	<b>Major Suppliers</b>	<b>Market Share %</b>
Baby Biscuits	Heinz (US)	77.4
	Farley (NA)	8.2
Baked Beans	Heinz (US)	59.6
	SPC (AU)	15.7
	Watties (US)	8.1
Breakfast Cereals	Kelloggs (US)	52.5
	Uncle Tobys (AU)	20.7
	Sanitarium (AU)	17.5
Carbonated Soft Drinks	Coca-Cola Amatil (AU)	52.0
	Pepsico (US)	10.4
	Cadbury Schweppes (UK)	15.1
Fruit Juices	Berrivale (AU)	34.5
	Sunburst (AU)	19.3
	Golden Circle (AU)	13.2
Instant Coffee	Nestle (Swiss)	72.6
	Douwe Egberts (US)	10.9
Biscuits	Arnotts (US)	57.0
	Westons (UK)	10.3
Flour	Goodman Fielder (AU)	49.0
	Westons Tip Top (UK)	12.4
Cake Mixes	White Wings (AU)	42.5
	Greens (AU)	21.5
Salad Dressings	Kraft (US)	46.9
	Meadow Lea Foods (AU)	25.3
Canned Soup	Heinz (US)	38.9
	Campbells (US)	26.0

Source: AC Nielsen, 1998; US = US, AU = Australia, UK = United Kingdom, NA = Unavailable.

**Profiles of the Top 20 Food Processing Companies in Australia**

The following table profiles the top 20 Australian food processing companies in Australia and includes information about each company's sales, type of processing, production location, procurement channels, and the end use of their products. Notice that a number of the top companies have US parents.

<b>Company Name &amp; Type of Food Processor</b>	<b>Food Sales 1997/98 US\$ million</b>	<b>% AUST Ownership*</b>	<b>End-Use Channel (Retail, HRI Food Service, Processing)</b>	<b>Production Location (domestic, off-shore, JV)</b>	<b>Procurement Channels</b>	<b>Exports % of Turn-over *</b>
<b>Goodman Fielder</b> (bakery, specialized, food ingredients, snack foods, meal solutions, breakfast cereals, bakery mixes, condiments)	1,413	75	Retail and HRI Processing	Australia South Pacific, Taiwan Indonesia (JV)	Direct Import Agents Distributors	5.76
<b>Nestle Foods</b> (Swiss Parent) (dairy, confectionery, infant formula, prepared meals, beverages, snacks)	1,220	0	Retail and HRI	Australia US (JV)	NA	14.71
<b>Gardner Smith</b> (US Parent) (oilseed products/cooking fat and oil/tallow)	932	0	Retail and HRI Processing	Australia US Africa China Europe New Zealand Singapore	Direct	NA
<b>Coca Cola Amatil</b> (beverages)	912	60	Retail and HRI	Australia	NA	0
<b>George Weston</b> (bakery, meat, dairy, small goods)	886	22	Retail and HRI	Australia	Direct Import Agents Wholesalers Brokers	1.45
<b>Dairy Farmers</b> (dairy)	881	100	Retail and HRI	Australia	Local Direct Import Agents Wholesalers Distributors	NA
<b>Australian Meat Holdings</b> (Owned by US Co. ConAgra) (meat, barley malting)	834	0	Retail and HRI Processing	Australia	Direct	NA

<b>CSR</b> (raw sugar)	795	100	Retail and HRI Processing	Australia US Asia New Zealand (JV)	Direct	NA
<b>National Foods</b> (dairy, beverages)	792	100	Retail and HRI	Australia Hong Kong (JV) New Zealand (license)	Importers Agents Wholesalers Direct Import Broker Distributor	2.82
<b>Murray Goulburn</b> (dairy, dairy based ingredients)	757	100	Retail and HRI Processing	Australia	Direct Import Agents Distributors	60.25
<b>Bonlac Foods</b> (dairy, beverages, dairy based ingredients for ice cream, confectionery, infant formula, bakery and dairy industries)	689	100	Retail, HRI and Processing	Australia Asia (JV) New Zealand (JV)	Direct Import Agents Distributors	43.09
<b>Effem Foods</b> (US Parent) (prepared meals, dry foods, soups, flavored rice, pet food)	749	0	Retail	Australia US	NA	21.24
<b>Cadbury Schweppes</b> (UK Parent) (beverages, condiments, confectionery)	673	0	Retail and HRI	Australia US (JV) UK (JV)	Direct Importer Agents Import Brokers	3.08
<b>Inghams Enterprises</b> (poultry products)	542	100	Retail and HRI	Australia New Zealand	Approved Suppliers/Agents (Product accompanied by Certificate of Analysis)	NA
<b>Unifoods</b>	537 E	0	NA	NA	NA	3.14
<b>Arnotts</b> (US Parent Campbell Soup Company) (baked goods, snack foods)	491	0	Retail and HRI	Australia PNG Indonesia	Direct Import Agents Wholesalers Distributors	4.21
<b>Ridley Corporation</b> (refined salt; animal feed) (67.8% share in US Ridley Inc operations)	434	100	Retail and HRI	Australia New Zealand US Canada Asia	Direct	NA
<b>Nippon Meat</b> (Japan Parent) (meat)	434	0	Retail and HRI	Australia	Direct	NA
<b>Pauls</b> (Italian Parent Parmalat) (dairy)	423	0	Retail and HRI	Australia China and	Direct Import Agents	NA

				Thailand	Wholesalers	
<b>Kraft Foods</b> (US Parent) (dairy, snack foods, condiments, prepared meals, frozen meals, beverages, bacon, dry goods, bakery, rice, confectionery)	422	0	Retail	Australia US (51 Factories; 7 Distribution) Canada (11 Factories; 3 Distribution)	Direct Import Agents Distributors Import Brokers	15.78

E = Estimate; \* = 1994/95 latest available data

### *Exports of Australian Processing Companies*

As identified in the above table a number of the top 20 companies are involved in exporting a large percentage of their product. For example Australia produces casein and caseinates, primarily for export markets with the US being the largest market for Australian casein, accounting for 3,549 tonnes or over 50% of total exports in 1997/98. Japan is also a significant market for casein exports from Australia. Suppliers include Bonlac, Australia's second largest dairy company, and Cottee Dairy Products.

Goodman Fielder, the top food processor and manufacturer in Australia, has manufacturing operations in PNG, South Pacific and Taiwan (Goody Foods Co. Ltd). Goodman Fielder also has in place a joint venture operation in Indonesia with PT Sinar Meadow International Indonesia which processes and markets edible oils. GF's operation involves manufacturing, marketing and distribution of food products to over 40 countries.

Murray Goulburn, Australia's largest exporter of processed food, and Bonlac Foods export substantial quantities of product with Bonlac securing orders to supply the US pharmaceutical group Warner-Lambert Co with the milk derivative Recaldent, which is used in chewing gum. Murray Goulburn's Cobram plant in Victoria is the largest dairy factory in the Southern Hemisphere, processing 2 million liters of milk per day.

### *Foreign Direct Investment into the Australian Food Processing Industry*

- **Investment from the US is significant:** Foreign Direct Investment from the United States is significant with its share of Australia's total FDI inflow approaching its historical average of some 40%. Six of the above 20 firms have US parents or origins.
- **FDI from Japan:** Snow Brand Milk Products, one of Japan's largest milk products companies with consolidated sales equivalent to US\$9.8billion in 1996/97, set up production operations in Australia because of the company's need to become more price-competitive versus major international competitors such as Kraft (US) and Nestlé (Swiss). The important criteria that singled out Australia for investment included:
  - Australia's low milk prices;
  - High quality of raw material;

- Sophistication of dairy industry including availability of advanced technology;
- Long grazing season;
- High level of milk production available for exports;
- Skills base including availability of highly trained personnel;
- Infrastructure;
- Low country risk and political stability;
- Transparency of doing business and of legal systems;
- Hygiene level with HACCP industry standard; and
- Clean and green environment.

#### D. Sector Trends

The growth of the food processing industry and therefore the demand for food ingredients is dependent on a number of factors including, consumer requirements for further advances in convenience, rising consumer consciousness of nutrition, consumer demand for diverse cuisine and new flavors, and the increasing diversity of the Australian population. Factors acting against further growth are the slow growth in population, consumer sensitivity to prices (particularly with the depreciation of the AUD), increasing demand for organic and fresh foods, and frequent buy Australian made and grown campaigns.

The following provides in greater detail an explanation of the consumption trends, which influence the type and quality of inputs being used by the food processing sector:

##### ***Rising consumer health consciousness***

Industry sources suggest there is a trend towards sugar-free, low fat products, which are additive free. In 1999 BIS Shrapnel conducted a survey of food service operators, wholesalers and distributors and 80% of them agreed that customers are demanding more healthy foods (e.g. low fat, vegetarian, organic). According to *Food Processor* (Australian magazine) products developed for the American market are likely to be launched into other markets including “light”, low fat and vitamin enriched foods and “natural” products made with fruit juices. Below are some specific examples:

- Hans Continental Smallgoods told *Food Processor* that “Consumer research clearly shows that 60% of consumers who have stopped buying smallgoods such as ham or bacon is due to their perceived high fat content, so we knew there was a definite consumer trend towards reduced fat products. However, considerable research has to be conducted on how to present a reduced fat range and how it tastes to meet consumer expectations.” They have brought out Hans Lean ‘N’ Tasty Bacon in response, which includes a whey protein to maximize taste.
- A new study conducted by Dr Joseph Hibbeln of the US National Institutes of Health reveals a strong relationship between lower rates of postnatal depression and higher levels of DHA in the diet. DHA – or Docosahexaenoic acid can be found in Atlantic salmon, tuna oils and tuna, organ meats such as brains and liver and food enriched with DHA, such as eggs and bread. Manufacturers in Australia have started to enrich foods with DHA including Goodman Fielder’s HiQ bread and Nutricia’s Karicare infant formula. Both products contain Clover Corporation’s HiDHA tuna oil.

- Goodman Fielder has also released a product called Logicol which includes additions of plant sterols which assist the body to prevent cholesterol absorption (canola spread). Australia has 4.5 million sufferers of high cholesterol (20% of the population) and research shows that about 2g of plant sterols every day in food for three weeks can reduce bad cholesterol (LDL) in the body by 10% (Muir GF senior product manager).
- ANZFA has approved the all-natural low calorie bulk sweetener polyol Erythritol for use in foods.
- New products are being developed which are geared specifically toward the health and wellness segment such as Buderim Ginger, which is sucrose-free and can be used, for example, in baking or as a retail snack. The product is processed in fructose based grape juice.
- Cottee Dairy Products has recently developed a new meal replacement/nutritional drink, which is a milk based, low calorie slimming drink with a rich chocolate flavor. The formulation includes Garcinia Cambogia (natural appetite curbing agent), Chromium (important trace element for effective blood sugar control), and Guar Gum (soluble fiber that creates a sense of fullness).

#### ***Increased consumption of healthy foods***

- Australians are increasing their consumption of fresh produce. BIS Shrapnel confirmed this trend in their 1999 survey where 51% of respondents agreed that fresh produce popularity was reducing demand for processed products.
- In response to consumer demand for organic foods Uncle Toby (AU) produced a breakfast bar product made from 100% Australian organic wheat. The product is low in fat, high in carbohydrates and fiber, and contains no sugar.

#### ***Rising popularity of 'functional foods'***

- According to Datamonitor's report *Functional and Adult Confectionery 1999*, functional confectionery is replacing 'empty calorie' consumption with convenience and nutrition being the drivers. Sugar free products are being used to try to penetrate the adult segments.
- Berri (AU) has released a range of 'functional beverages': Berri Plus+ Vitamins ACE (antioxidants Vitamins A, E and C through addition of palm oil), Berri Plus+ Fibre (inulin from the chicory root, and aloe vera plant juice) and Berri Plus+ Calcium (added whey powder for calcium). These products meet a growing demand by consumers for natural products.
- Cottee Dairy Products Foods has produced a colostrum based sports and recuperation drink for the US market. Ingredients include immunoglobulins IgG, IgA, IgM and growth factors, lactoferrin, whey protein isolate to help the body repair and Dairycal natural milk calcium to promote positive balance. Cottee is supplying the bulk packed product to the US ready for re-pack and distribution. They've also designed products for puppies in the US and are attracting interest from Europe.

***Slow population Growth and Price Sensitivity***

- In a survey conducted by Instate Pty Ltd (2000) respondents commented that medium-term growth for companies remained limited by slow population growth and continuing consumer price sensitivity to rising food costs. Depreciation of the Australian dollar and rising interest rates are also exacerbating trends.

***Multicultural nature of Australian population influencing food choices***

- There has been strong growth in Asian food imports reflecting both increasing demand for foods from "home" countries by immigrants from Asia and a growing appreciation for this style of food by the community in general.

***Adventurous palates***

- Australians are developing more of a taste for spicy food using around 68% more spices in food preparation than a decade ago. However, although broad flavor trends continue to evolve it is not as dynamic as ten years ago. According to Steve Brown, GM CSR Food Ingredients, the last big thing was the influence of Thai flavors. Today, flavors are still ethnically based but the industry is focused on looking for greater efficiencies in supply.
- Using highly descriptive methods such as flavor profiling is a highly effective way to define products and develop prototypes (*Food Processor* magazine). The Australian industry is gearing towards the use of electronic sensors in combination with trained panel to evaluate and grade products. The Australian Food Industry Science Centre is one organization recognized for its involvement and expertise in the field of evaluating sensory properties of foods and raw materials.

***Increased nutritional awareness by adult males***

- GBS Survey (Good Business Sense) showed that adult males are showing increased nutritional awareness and exhibiting a growing desire to eat a balanced diet providing an opportunity to manufacturers. Manufacturers who can balance image and taste with a nutritional benefits message can gain significant market advantage in Australia. 74% of all adult respondents consider the nutritional value of food to be very important while a further 23% consider nutrition to be somewhat important. However this has not yet translated to purchases with the main motivator to purchase being hunger (53%) compared with desire to boost nutritional input (17%).

**Section III: Competition**

Local products enjoy a competitive advantage over imported products particularly with respect to fresh ingredients, however food imports are continuing to increase reflecting a number of factors. These factors include an increasingly multicultural society, the Australian consumer's desire for diverse cuisine, and that Australia does not produce all the necessary ingredients for the food processing industry. The last factor may be because of unsuitable climatic conditions or that the labor cost content is too high to warrant significant production. All these factors confer advantage on overseas countries that can satisfy these demands. US suppliers and US products are already present in the market meeting some of these needs as part of a foreign direct investment program or through exports to Australia.

An additional comparative disadvantage for foreign products is that low cost, high quality imports, from developing countries are becoming available in world markets, which represent competition not only to Australian processors but US suppliers as well.

US food ingredients in Australia compete primarily with Australian, Malaysian, New Zealand, Singaporean and US products already established in the market or manufactured in Australia. The six main countries from which Australia imported food and beverage ingredients in 1998/99 for use by the food and beverages industry were Malaysia (18%), US (11%), New Zealand (11%), Singapore (10%), PNG (7%) and Indonesia (7%). Malaysia has steadily increased their share of imports from 16% in 1996-97, whereas the US has lost share, falling from 18% in 1996-98 to 13% in 1997-98 and now 11% in 1998/99.

Imports of food inputs to the food processing sector may be broken up into primary and processed inputs. 63% of imports from the US (by value) to Australia in 1998/99 were processed, declining from 70% in 1996/97. Imports from Malaysia are almost entirely processed. For New Zealand on the other hand the majority of imports were primary products (68%) with the remainder being processed (32%).

There has been strong growth in Asian food imports reflecting both increasing demand for foods from "home" countries by immigrants from Asia and a growing appreciation for this style of food by the community in general. Countries that have benefitted from an increasingly multicultural Australia would appear to be Malaysia and Singapore with imports from Malaysia for 1998/99 growing by 29% (nominal) over 1996/97.

For some sectors of the food ingredients market there are no competing local products such as dried onions, dried herbs, nuts, stabilizers, and colors. For example, for colors Italy is a major source of anthocyanin. CHR Hansen, an import agent in Australia and international company, has acquired a majority holding of the Italian anthocyanin manufacturer, Enocanossa SpA Anthocyanin, which produces one of the major natural red colors, especially suitable for beverages. Close to 45% of the world's production of anthocyanin comes from Italy. Other products which competition is low

Australian food processing companies also lack competitiveness because the cost of production of some raw materials is high in comparison to overseas countries. For much of the sector raw materials confer little competitive advantage except in the dairy industry and to a lesser extent, some meat and grains. Down the chain – in processing, packaging, branding and marketing – Australian firms do not often perform well against world benchmarks. The main reasons for lack of competitiveness in raw materials is the lack of scale at primary producer level and relatively less developed vertical integration with the food processors, compared with competitor countries. Labor productivity in some segments in the industry lags what competitors achieve in the United States. The main finding of the McKinsey & Company in 1995 and 1996 was that productivity in the Australian food processing industry was only 68% of the US level, basically due to slow adoption of process, product and service innovation.

Additionally investment in research and development (R&D) is falling with R&D expenditure in the food/beverages/tobacco manufacturing industries declining by almost 38% between 1995/96 and 1997/98. In an industry where product innovation is essential Australia may further lose advantage to overseas competitors.

### *Summary of Price Competitiveness of Australian Agricultural Sub-sectors*

<b>Raw Material</b>	<b>Competitive?</b>
Dairy	Australia ranks with New Zealand as low cost producers.
Chicken meat	Australian costs are much higher than key poultry exporting nations such as the US, Brazil, Thailand and China, though comparable to the EU.
Pig meat	Australian costs of production are, on average, higher than the US and Canada and some south east Asian countries.
Beef & Lamb	Pasture based production is competitive. Feedlot beef production is less competitive than the US, because of higher feed-grains cost and low labor productivity.
Horticulture	Australia is considered a high cost producer.
Grain	Production is efficient and Australia trades internationally though distribution adds inefficiencies.

Source: Adapted from Instate Pty Ltd 2000.

NOTE: Currently fresh/chilled/frozen poultry & pork are prohibited entry to Australia.

## **Section IV: Best Product Prospects**

### **A. Products Present in the Market which have Good Sales Potential**

An import agent in Australia advised that the Australian market is well covered in terms of the supply of ingredients to the food processing industry from domestic and foreign sources. However within particular sub-sectors there are areas which are growing. For example:

- Baking: Inclusions (e.g. dried fruit);
- Confectionery: Sugar-free products;
- Functional foods: health conscious consumers are driving the demand for nutraceuticals such as soy isoflavones. Australian already imports soy isoflavones from ADM in the US. Soy beverages last year turned over in retail dollars US\$68 million, growing in 1998 on 1997 by 24%;
- Snackfoods: Penford Food Ingredients from the US has entered the market with PenCling 580 modified potato starch used to make crackers and wafers crisper;

- Flavor enhancers: HI-CAP 200 starch introduced by National Starch & Chemical as an encapsulation starch that is capable of carrying significantly higher flavor loads while providing very good oxidation resistance;
- Flavors: CHR Hansen has released a range of savory flavors, developed in North America by Ingredient Technology Corporation, and includes roast flavors, sautéed flavors, grilled flavors and a combination of fresh and cooked notes to satisfy modern flavor demands.

Other possible best products have been discussed in other sections of this report.

## **B. Products Not Present in Significant Quantities but Which Have Good Sales Potential**

There are food ingredients which Australia does not produce sufficient quantities of. Products in this category, where local production does not meet demand, include aquatic products, peanuts, pineapples, champignons, tea, coffee, cocoa, coconut, dried herbs, dried onions and spices. Shortages in the supply of these products represent opportunities for US suppliers.

There are specific quarantine requirements for these products. For example, for pineapple (as with most fruit) a permit is required and for fresh pineapple from the US each consignment must be accompanied by a Phytosanitary Certificate endorsed: "Fruit fumigated with methyl bromide at the rate of 32 g/m<sup>3</sup> for 6 hours at 21°C or above". Also the tops must be removed from the pineapples. In addition to these conditions there are also general requirements common to importation of fresh fruit and fall under Condition C6000 of AQIS import requirements. The website is [www.aqis.com.au](http://www.aqis.com.au) and can be used to check import conditions for other products. Once at the site click on the 'IMPORT' button then the 'ICON Search' link to carry out keyword searches.

Opportunities also exist in Australia for US suppliers of organic foods. Current estimates for the Australian retail organic market exceed US\$125 (A\$200) million with market analysts heralding future growth as current demand outstrips supply. The demand in Australia is increasing and with the recent introduction of the national certification program in the US, suppliers may expand into the Australian market which has a system of certification in place since 1992. The US market itself is valued at US\$4.6 billion and is experiencing rapid growth of 22% per year.

There are also opportunities in Australia for new flavors given that Australian consumers like to experiment. According to Steve Brown, GM CSR Food Ingredients, the last big thing was the influence of Thai flavors, however Africa is probably the home of some savory and spice flavors that are still to be explored.

### C. Products Not Present Because They Face Significant Barriers

The Australian government has banned and restricted concentrations in food for a series of additives including caffeine. Please view the *Food Standards Code* for guidance as to what is permitted and what is not as it forms the basis of all requirements for foods imported into Australia and for domestically produced foods. Both imported and domestically produced foods must meet the same set of standards.

There are General Standards in the Code which deal with the description of the product and its composition, including:

- Maximum permitted concentrations for metals and contaminants; and
- Maximum residue levels for agricultural and veterinary chemicals.

## Section V: Post Contact & Further Information

### *Post Contact*

Randolph Zeitner  
Agricultural Counselor  
U.S. Embassy  
APO AP 96549  
Tel: +61-2-6214-5854  
Fax: +61-2-6273-1656  
e-mail: [AgCanberra@fas.usda.gov](mailto:AgCanberra@fas.usda.gov)  
[fas@optusnet.com.au](mailto:fas@optusnet.com.au)

### *Regulations*

Food imported into Australia from countries other than New Zealand must comply solely with the Australian *Food Standards Code*. The Internet version of the Code can be obtained from Health Communication Network Ltd <http://www.hcn.net.au/anzfa/>. A subscription of \$350 applies for new members. To become a subscriber the following Internet site will guide you through subscribing. The Standard is under the control of the Australia New Zealand Food Authority (ANZFA), <http://www.anzfa.gov.au>. Food safety import regulations can also be found at <http://www.aqis.gov.au/> and <http://www.anzfa.gov.au/FoodStandards/>

The addition of food additives to low joule food, for example, is covered by Standard 1.2.3, 1.2.7, 1.3.1, and 1.3.4, of the general standard for Food Additives (ANZFA).

Australia has decided that mandatory labeling for genetically modified foods will be required. This regulation is unlikely to become effective before early to mid 2001.



This Post's Food and Agriculture Import Regulations and Standards (FAIRS) report, which contains detailed information on Australia's food standards, labeling requirements, import regulations, etc. can be viewed and downloaded at the following Internet site and conducting a "AGR Number" search for report number AS9033: <http://www.fas.usda.gov/scriptsw/attacherep/default.htm>.

Our reports on the Retail Sector and the Hotel, Restaurant, Institutional Food Service Sector can also be downloaded at the same site by conducting a search for report numbers AS9055 and AS0012 respectively.

### ***Guidelines for Companies Interested in Exporting Food Products to Australia***

An invaluable site for companies interested in exporting food products to Australia is the site of Agriculture, Fisheries and Forestry – Australia (Federal Government) <http://www.affa.gov.au/importguidelines/>. The process for quarantine clearance, imported food inspection, foods likely to require risk analysis etc is explained clearly with contacts for additional questions.

Further information on country of origin labeling may be obtained from a dedicated website: <http://www.isr.gov.au/labelling>

### ***Seafood Services Australia***

To find out development in the Seafood industry in Australia in the following site. There are various pages still under construction: <http://www.seafoodsite.com.au/default.htm>

### ***Candy Manufacturers of Australasia Ltd***

Provides useful information about the Confectionery industry and trade contacts. <http://www.candy.net.au/index2.html>

### ***Food Industry Web Initiatives - Nutrition Australia***

**Nutrition Australia** has launched its new website at <http://www.NutritionAustralia.org>. This features downloadable fact sheets, media releases, position papers, frequently asked questions, recipes, newsletters, booklets and a search engine.

**List of food manufacturers** and contact details for variety of canned goods see the following website: <http://www.cannedfood.org/varieties.html>

**Trade Events****2000**

**June 28-30. Dairy Ingredient Science 2000.** Melbourne Exhibition & Convention Centre. OzAccom Conference Services; tel: (61-7) 3854 1611, fax: (61-7) 3854 1507, email: [ozaccom@ozacomm.com.au](mailto:ozaccom@ozacomm.com.au).

**July 2-5. ConSnack 2000.** Marriott Surfers Paradise Resort. CMA; tel: (61-3) 9813 1600, fax: (61-3) 9882 5473.

**July 23-28. ICC-9 Microbial Resources for the New Millennium.** Brisbane. Dr Lindsay Sly; tel: (61-7) 3365 2396, fax: (61-7) 3365 1566, email: [sly@biosci.uq.edu.au](mailto:sly@biosci.uq.edu.au).

**July 26-27. Seventh Australian HACCP Conference.** Adelaide South Australia. Food Operations; tel: (61-2) 9898 0344, fax: (61-2) 9898 0564, email: [haccp@foodoperations.com.au](mailto:haccp@foodoperations.com.au).

**September 8-15. 11th International Cereal and Bread Congress. Cereal Health and Life - Technology for the New Millenium.** Surfers Paradise, Queensland. Secretariat, Australian Wheat Board; email: [bcracknell@awb.com.au](mailto:bcracknell@awb.com.au), web: <http://www.icc.or.at/icc/>.

**November 17-20. Fine Food Australia/ The Supermarket Show/ Australian Food Congress.** Melbourne Exhibition Centre. AES; tel: (61-3) 9261 4500, web: <http://www.ausexhibit.com.au/food>.

**November 23-29 Wine Australia 2000.** Melbourne Exhibition Centre. Exhibition Management Pty Ltd; tel: (61-3) 9646 4044, fax: (61-3) 9646 1828, email: [exhibman@enternet.com.au](mailto:exhibman@enternet.com.au).

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**March 28-30. 10th Australian Food Microbiology Conference – Food Microbiology in the 3rd Millennium.** Melbourne. Alison Johnson, Food Science Australia; tel: (61-3) 9731 3417, fax: (61-3) 9731 3201, email: [alisonjohnson@foodscience.afisc.csiro.au](mailto:alisonjohnson@foodscience.afisc.csiro.au).